

Message Text

UNCLASSIFIED

PAGE 01 LONDON 08088 01 OF 03 131733Z

41

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AGR-20 STR-08 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

PRS-01 SS-15 USIA-12 AID-20 CEA-02 COME-00 EB-11

FRB-02 IO-13 NEA-10 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 RSR-01 /211 W
----- 078044

R 131650Z JUL 73

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2596
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USDOC WASHDC
TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 03 LONDON 08088

DEPARTMENT FOR FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY L3

BEGIN SUMMARY: GOLD REACHED ANOTHER NEW HIGH ON FRIDAY,
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08088 01 OF 03 131733Z

JULY 6, CLOSING AT \$127 AN OUNCE. STERLING MOVED DOWN-

WARD VIS-A-VIS THE DOLLAR THIS WEEK AND CLOSED AT \$2.5433-1/2 ON THURSDAY, JULY 12, A TRADE WEIGHTED DEVALUATION OF 15.87 PERCENT AGAINST SMITHSONIAN RATES. THE UK RECORDED A VISIBLE BALANCE OF PAYMENTS DEFICIT OF 138 MILLION POUNDS (S.A., F.O.B.) IN MAY, WITH A CURRENT ACCOUNT DEFICIT OF 80 MILLION POUNDS. IN MAY, INDUSTRIAL PRODUCTION WAS INCREASING AT AN ANNUAL RATE OF 7.2 PERCENT. THE OVERALL LEVEL OF WHOLESALE PRICES ROSE BY 1 PERCENT IN JUNE, BUT THERE WAS A JUMP OF 3 PERCENT IN PRICES OF BASIC MATERIALS AND FUEL. FIGURES ON EXPENDITURE IN THE FIRST QUARTER SHOW INCREASES OF 4 TO 4-1/2 PERCENT IN CONSUMERS' EXPENDITURE AND OVER 5 PERCENT IN GROSS FIXED INVESTMENT, WHEN COMPARED TO 4TH QUARTER 1972. THE LEVEL OF INVENTORIES IN THE FIRST QUARTER INCREASED BY ALMOST 250 MILLION POUNDS (AT 1963 PRICES) WITH MANUFACTURERS' INVENTORIES ACCOUNTING FOR MORE THAN HALF THE INCREASE. BANK LENDING HAS STARTED TO RISE SHARPLY AGAIN AFTER THE TWO-MONTH PAUSE IN APRIL AND MAY. THE THIRD ROUND OF TALKS BETWEEN THE CBI AND THE GOVERNMENT WILL BE HELD ON JULY 30. END SUMMARY

1. THE TURMOIL IN THE MARKETS ON FRIDAY, JULY 6, CAUSED THE PRICE OF GOLD TO RISE TO \$127 AN OUNCE. STERLING MOVED WITH THE DOLLAR BUT LOST GROUND AGAINST OTHER EUROPEAN CURRENCIES, BEING DEVALUED ON JULY 6 BY 18.07 PERCENT ON A TRADE WEIGHTED BASIS AGAINST SMITHSONIAN RATES. ON MONDAY, JULY 9, STERLING RECOVERED SOMEWHAT AND CONTINUED TO DO SO AGAINST ITS MAJOR TRADING PARTNERS UNTIL THURSDAY. ON JULY 12, THE DOLLAR/STERLING RATE CLOSED AT \$2.5433-1/2, DOWN 307 POINTS ON LAST THURSDAY'S CLOSE.

2. UK TRADE DEFICITS WERE 138 MILLION POUNDS (S.A., F.O.B., B/P BASIS) IN JUNE, WITH IMPORTS OF 1112 MILLION POUNDS AND A RECORD LEVEL OF EXPORTS OF 974 MILLION POUNDS. THIS IS AN IMPROVEMENT OF 73 MILLION POUNDS ON LAST MONTH. WITH AN INVISIBLE SURPLUS ESTIMATED AT 58 MILLION POUNDS, A CURRENT ACCOUNT DEFICIT OF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08088 01 OF 03 131733Z

80 MILLION POUNDS WAS RECORDED. THIS BROUGHT THE ANNUAL RATE OF DEFICIT DURING THE FIRST HALF OF 1973 TO 828 MILLION POUNDS, COMPARED WITH A SURPLUS OF 18 MILLION POUNDS IN 1972. THE VOLUME OF EXPORTS HAS GROWN FASTER THAN THAT OF IMPORTS (12 PERCENT AGAINST 7 PERCENT) WHEN THE FIRST FIVE MONTHS OF 1973 ARE COMPARED TO SECOND HALF 1972. MOST OF THE DETERIORATION IN VISIBLE TRADE IS ACCOUNTED FOR BY IMPORT PRICES IN MAY, WHICH

WERE UP 28 PERCENT ON A YEAR AGO.

3. THE STRONG GROWTH OF INDUSTRIAL PRODUCTION IS BEING SUSTAINED. THE RISE IN OUTPUT FOR ALL INDUSTRIES WAS UP 7-1/2 PERCENT WHEN THE LATEST THREE MONTHS (MARCH-MAY ADJUSTED TO AN ANNUAL BASIS ARE COMPARED TO SECOND HALF 1972. FOR OUTPUT IN MANUFACTURING ALONE, THE INCREASE WAS 8 PERCENT ON THE SAME BASIS. THE MAY INDEX FOR ALL INDUSTRIES WAS 141.2 COMPARED TO 140.3 IN APRIL AND 140.0 IN MARCH (1963 = 100). THE INDEX FOR MANUFACTURING WAS 141.7 IN MAY, 141.6 IN APRIL, AND 143.0 IN MARCH.

4. WHOLESALE PRICES OF DOMESTIC SALES OF MANUFACTURED PRODUCTS (N.S.-A.) INCREASED BY 1 PERCENT IN JUNE, ABOUT THE SAME AS IN MAY (THE INDEX MOVED FROM 119.9 IN MAY

ANNENBERG

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 08088 02 OF 03 131732Z

41

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AGR-20 STR-08 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

PRS-01 SS-15 USIA-12 AID-20 CEA-02 COME-00 EB-11

FRB-02 IO-13 NEA-10 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 RSR-01 /211 W

----- 078043

R 131650Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2597

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USDOC WASHDC
TREASURY DEPT WASHDC

UNCLAS SECTION 02 OF 03 LONDON 08088

TO 121.1 IN JUNE, 1970 100). THERE WERE FURTHER INCREASES IN MANUFACTURED FOOD PRICES (UP 2 PERCENT IN JUNE), AND A SIGNIFICANT INCREASE IN THE PRICES OF ENGINEERING PRODUCTS (PROBABLY REFLECTING THE FEEDING THROUGH OF HIGHER STEEL PRICES). PRICES OF BASIC MATERIALS AND FUELS USED BY MANUFACTURING INDUSTRY ROSE BY 3 PERCENT IN JUNE. THEY HAVE INCREASED 14 PERCENT UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08088 02 OF 03 131732Z

SO FAR THIS YEAR AND BY 27 PERCENT IN THE PAST 12 MONTHS.

5. CONSUMERS' EXPENDITURE WAS BOOSTED BY PRE-VALUE-ADDED TAX BUYING, SHOWING AN INCREASE OF BETWEEN 4 AND 4-1/2 PERCENT BETWEEN 1ST QUARTER 1973 AND FOURTH QUARTER 1972. THIS LEAD TO A SIGNIFICANT FALL IN THE SAVINGS RATIO FROM 9.4 PERCENT (4Q1972) TO 7.2 (LQ L973). MORE RECENT FIGURES SHOW A MARKED SLACKENING IN CONSUMER SPENDING. IN REAL TERMS, CONSUMERS' EXPENDITURE WAS UP 2-1/2 PERCENT IN THE FIRST QUARTER AND AT AN ANNUAL RATE OF 7-1/2 PERCENT.

6. CAPITAL EXPENDITURE IN MANUFACTURING INDUSTRY WAS 348 MILLION POUNDS (S.A., 1963 PRICES) IN 1Q1973 COMPARED TO 330 MILLION POUNDS IN 4Q1972. THIS IS A GAIN OF ABOUT 5 PERCENT. THERE WAS AN INCREASE OF ABOUT 6 PERCENT IN EXPENDITURE ON NEW BUILDINGS AND ABOUT 5 PERCENT IN EXPENDITURE ON PLANT AND MACHINERY.

7. THE TOTAL LEVEL OF INVENTORIES ROSE BY ALMOST 250 MILLION POUNDS (S.A., 1963 PRICES), WITH MANUFACTURERS' STOCKS UP BY 134 MILLION POUNDS, WHICH ACCOUNTED FOR MORE THAN HALF THE INCREASE. THIS FOLLOWS A FALL IN TOTAL INVENTORIES OF 415 MILLION POUNDS IN 1972 AS A WHOLE. THE STOCKS/OUTPUT RATIO REMAINED LOW AT 79.4 (1962 100).

8. FIGURES RELEASED BY THE LONDON CLEARING BANKS FOR MID-JUNE GIVE NO INDICATION THAT MANUFACTURING

INDUSTRY HAS YET STARTED TO INCREASE ITS BORROWING ON ANY SCALE TO FINANCE HIGHER LEVELS OF INVESTMENT AND STOCKBUILDING. BORROWING BY THE PERSONAL SECTOR, WHICH HAD BEEN GROWING MORE SLOWLY OF LATE, APPEARED TO ACCELERATE AGAIN. THE AVERAGE RESERVE RATIO DROPPED FROM 14.6 PERCENT TO 14.3 PERCENT (AGAINST THE MINIMUM OF 12-1/2 PERCENT).

9. THE CBI, WHICH IS SCHEDULED TO MEET WITH THE GOVERNMENT AGAIN ON JULY 30, IS UNDERSTOOD TO FAVOR A FIXED PERCENTAGE PAY RISE NORM RATHER THAN THE CURRENT 1
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08088 02 OF 03 131732Z

POUND PLUS 4 PERCENT FORMULA. ON PRICES, THE CONFEDERATION IS EXPECTED TO EMPHASIZE THAT ALTHOUGH IT BELIEVES THERE SHOULD BE A RELAXATION OF CONTROLS ON PROFIT MARGINS, AS THE PROFIT MOTIVE ENCOURAGES COMPANIES TO MAKE THEMSELVES MORE EFFICIENT, IT ACCEPTS THAT CONTROLS ON PRICES WILL HAVE TO CONTINUE.

L0. THE ONE MONTH DISCOUNT ON STERLING NARROWED DURING THE WEEK FROM MONDAY'S LEVEL OF 0.72-1/2 CENTS. AT 3 MONTHS AND SIX MONTHS THE DISCOUNT WIDENED UNTIL WEDNESDAY TO 1.89-1/2 CENTS AND 3.52 CENTS RESPECTIVELY AND THEN NARROWED ON THURSDAY.

*	7/5	7/12	CHANGE
1 MONTH	0.65-722	0.42-1/2	DOWN 0.23
3 MONTHS	1.73-1/2	1.54-1/2	DOWN 0.19

ANNENBERG

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 08088 03 OF 03 131730Z

44
ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AGR-20 STR-08 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

PRS-01 SS-15 USIA-12 AID-20 CEA-02 COME-00 EB-11

FRB-02 IO-13 NEA-10 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 RSR-01 /211 W

----- 078087

R 131650Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2598

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 03 OF 03 LONDON 08088

6 MONTHS 3.24 3.05 DOWN 0.19

* (ALL FIGURES IN CENTS)

11. LOCAL AUTHORITY DEPOSIT RATES ROSE TOWARDS MID-WEEK, BUT DRPPED BACK marginally ON THURSDAY ALTHOUGH STILL UP ON LAST THURSDAY'S RATES.

* 7/5 7/12 CHANGE

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08088 03 OF 03 131730Z

1 MONTH 7-3/8 7-7/16 UP 1/16

3 MONTHS 8 8-1/4 UP 1/4

6 MONTHS 8-1/2 8-11/16 UP 3/16

12. EURODOLLAR RATES ROSE SHARPLY ON FRIDAY (JUNE 6), MOVED DOWN UNTIL WEDNESDAY AND THEY THEN MOVED UP AGAIN.

* 7/5 7/12 CHANGE

1 MONTH 9-5/8 9-3/4 UP 1/8

3 MONTHS 9-3/4 9-3/4 UNCHANGED

6 MONTHS 9-3/4 9-7/8 UP 1/8

13. GOLD CLOSED AT \$120.75 ON THURSDAY, DOWN 2.25 ON LAST THURSDAY'S CLOSE.

14. THE MINIMUM LENDING RATE REMAINED FIXED AT 7-1/2 PERCENT.

ANNENBERG

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON08088
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730735/aaaaazuy.tel
Line Count: 335
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 10 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10-Aug-2001 by maustmc>; APPROVED <15-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY L3 BEGIN SUMMARY: GOLD REACHED ANOTHER NEW HIGH ON FRIDAY
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005